

Message Text

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C O N F I D E N T I A L KUWAIT 4007

EXDIS

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: OIL COMPANY/KOC TALKS ARE PARTICIPATION AGREEMENT

CONTINUE

SUMMARY: GULF AND BP REPS HAVE CONTINUED TALKS IN KUWAIT WITH GOK MINFINANCE AND OIL ATEEQI RE PARTICIPATION AGREEMENT. FINAL AGREEMENT NOT YET IN SIGHT, BUT ATEEQI APPARENTLY SEEKING FORMULA FOR AGREEMENT THAT COULD BE APPROVED BY COUNCIL OF MINISTERS IN CAMERA AND NOT SUBMITTED TO NATIONAL ASSEMBLY UNTIL PROPITIOUS MOMENT. COMPANY REPS BELIEVE ATEEQI MAY ACCEPT SOME PARTICIPATION PERCENTAGE MORE FAVORABLE THAN 51-49, BUT LESS THAN 100-0. ULTIMATE QUESTION IS WHETHER KUWAIT AND OTHER PRODUCERS WANT TO CONTINUE RELATIONSHIP WITH COMPANIES, AND REPS BELIEVE ATEEQI'S ANSWERHCS AENIRMATIVE. COMPANY GBPS CONCURRED WITH MY BELIEF THAT BEST TACTIC AT PRESENT IS NOT RPT NOT TO PRESS FOR FORMAL AGREEMENT WHICH WOULD HAVE TO BE EXPOSED TO ASSEMBLY AND OTHER PRODUCERS BUT QUIETLY TO TRY TO ACHIEVE BASIS FOR LONG-RANGE ACCOMMODATION. END SUMMARY.

1. RALSTON OF GULF AND SUTCLIFFE OF BP, IN TOWN TO CONTINUE SERIES OF TALKS ON PARTICIPATION THAT HAVE BEEN IN PROGRESS BETWEEN CONFIDENTIAL

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KUWAIT OIL COMPANY (KOC) PARENT COMPANIES AND GOK OVER PAST FEW MONTHS, CAME TO CALL NOV 10. THEY SAID THAT WHILE FINAL AGREEMENT NOT YET IN SIGHT, IT BECOMING CLEAR THAT GOK WANTS AGREEMENT OF SOME SORT, BUT WITH ONE EYE ON CANTANKEROUS KUWAIT NATIONAL

ASSEMBLY AND ANOTHER ON SAUDI ARABIA AND OTHER PRODUCERS, IT WARY OF MAKING ANY COMMITMENTS TO COMPANIES FOR WHICH IT COULD BE CRITICIZED. MINISTER OF FINANCE AND OIL ATEEQI AND HIS ASSISTANTS, THEREFORE, SEEMED TO WANT TO FIND SOME FORMULA FOR AGREEMENT THAT ATEEQI COULD CARRY IN HIS HOP POCKET AGAINST DAY WHEN IT COULD BE SAFELY SURFACED. COMPANY REPS THOUGHT THIS MEANT IT WOULD BE ONE THAT HAS BEEN CONSIDERED AND PASSED BY COUNCIL OF MINISTERS IN CAMERA BUT NOT RPT NOT SUBMITTED TO NATIONAL ASSEMBLY UNTIL PRECISELY RIGHT MOMENT.

2. RALSTON SAID BASIC ELEMENTS OF AGREEMENT BEING TALKED ABOUT WERE PERCENTAGE OF PARTICIPATION, ARRANGEMENTS AND PRICING OF BUY-BACK OIL, AND COMPENSATION. COMPANIES HAD NOT AS RESULT CURRENT TALKS GAINED ANY REALLY NEW INSIGHT INTO KUWAITI THINKING ON ANY OF THESE POINTS, BUT ON PARTICIPATION SUTCLIFFE THOUGHT KUWAITIS MIGHT CONCEIVABLY CONSIDER ACCEPTING SOMETHING LESS THAN 100 PERCENT FOR KUWAIT. HOWEVER, IT WOULD PROBABLY HAVE TO BE MORE THAN 51-49 ON GROUNDS THAT KUWAPT WOULD HAVE TO ACHIEVE BY NEGOTIATION MORE THAN LIBYA HAD TAKEN BY FORCE. BOTH RALSTON AND SUTCLIFFE FELT OTHER GULF PRODUCERS HAD THEIRHBEADY EYES ON KUWAIT, AND WHAT HAPPENED HERE WOULD, OF COURSE, AFFECT THEIR DEMANDS IN THEIR OWN NEGOTIATIONS LATER. RESULT COULD WELL BE SAME OLD LEAPFROGGING PROCESS. ON OTHER HAND SINCE PRODUCERS HELD HIGH CARDS, SITUATION HAD COME DOWN FUNDAMENTALLY TO AN ASSESSMENT OF ULTIMATE INTENTIONS OF PRODUCERS: DID THEY INTEND TO CONTINUE SOME SORT OF RELATIONSHIP WITH COMPANIES OR NOT?

3. RALSTON AND SUTCLIFFE SAID THAT, INTERESTINGLY ENOUGHT, THEY FELT ANSKAER TO ABOVE QUESTION WAS YES. ATEEQI WAS TALKING MORE AND MORE OF LONG-TERM ENERGY PROBLEMS WHICH WOULD BE SOLVED ONLY THROUGH INTERNATIONAL COOPERATION, IN HIS VIEW. HE ALSO PROBING WITH COMPANIES

MERITS OF CONSULTATION BETWEEN PRODUCERS AND CONSUMERS AND COMPANIES WHICHNVIGHT LEAD, FOR EXAMPLE, TO WORLD ENERGY COMPANIES SOMEWHAT ON PATTERN OF COMSAT IN COMMUNICATIONS. SUCH ENTERPRISES WOULD ENGAGE IN RESEARCH AND INVESTMENT IN SOLAR AND OTHER FUTURE FORMS OF ENERGY.

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4. RALSTON AND SUTCLIFFE SAID, IN SHORT, THEIR READING WAS THAT GOK WANTED CONTINUED ASSOCIATION WITH COMPANIES AND WANTED CAST ABOUT, IN VERY QUIET WAY AS LONG AS MIDEAST TENSIONS REMAINED, FOR SOME REASONABLY LASTING FORMULA THAT GOK COULD DEFEND IN FACE PRE-DICTABLE INTERNAL RADICAL OPPOSITION AND REACTION OF OTHER GULF PRODUCERS. ASKED MY ADVICE, I SAID I THOUGHT ATEEQI'S STRATEGY WAS RIGHT ONE, I.E. TRY ACHIEVE BASIS FOR LONG-RANGE AGREEMENT THAT COMPANIES COULD LIVE WITH AND ATEEQI COULD SELL TO COUNCIL OF MINISTERS (READ PM/CROWN PRINCE JABER AL-AHMAD), BUT AVOIDING TEMPTATION TO PRESS FOR QUICK FORMAL AGREEMENT WHICH WOULD HAVE TO BE SURFACED IN A NATIONAL ASSEMBLY NOT KNOWN FOR ITS SYMPATHY FOR OIL COMPANIES. I ADDED I THOUGHT THAT IF COMPANIES PLAYED IT COOL, PROSPEV S OF AVOIDING NATIONALIZATION WERE VERY GOOD IN KUWAIT.

RALSTON AND SUTCLIFFE SAID THEY AGREED. THEY ADDED THEY BOTH UNDER PRESSURE FROM GULF AND BP SUPERIORS TO TRY ACHIEVE SPEEDY AGREEMENT, AND THESE COMMENTS THEREFORE WOULD BE HELPFUL IN PERSUADING OWNERS TO BE PATIENT.

5. COMMENT: WHILE NATIONALIZATION OF AT LEAST GULF OIL COMPANY SHARE IN KOC CANNOT BE RULED OUT, ESPECIALLY IF MIDEAST SITUATION NOT RESOLVED, CURRENT SIGNS ARE CLEAR THAT GOK WANTS NOT ONLY TO RETAIN LONG-TERM RELATIONSHIP WITH OIL COMPANIES BUT TO EXPAND THIS RELATIONSHIP INTO OTHER ENERGY AND ENERGY RELATED FIELDS. GOK OFFICIALS LIKE ATEEQI, IN OTHERWORDS, ARE TRYING TO THINK BIG, AND BEYOND CURRENT OIL PROBLEMS AND OIL SQUEEZE WHICH THEY HOPE WILL END SOON. FOLLOWING IS STRIKING EXAMPLE OF THIS POINT. OTHER NIGHT AT YUGOSLAV RECEPTION ATEEQI, IN TYPICAL GRANDSTAND AND BANTERING MANNER HE LIKES ASSUME IN PUBLIC, MARCHED UP TO AMERICAN AMBASSADOR. IN FRONT OF LARGE GROUP OF LISTENERS WHO EXPECTED HIM TO GIVE ME PUBLIC

LECTURE ON SINS OF US IN MIDEAST, ATEEQI DISMISSED CURRENT EMBARGO WITH COMMENT THAT ARABS MUST MAKE WEST UNDERSTAND HOW THEY FEEL ABOUT REGAINING ARAB LANDS, BUT CURRENT PROBLEMS BOUND TO BE SOLVED AND FORGOTTEN. PROBLEM THAT WOULD NOT GO AWAY, HOWEVER, ATEEQI MAINTAINED, WAS WORLD'S INCREASING DEMAND FOR ENERGY. HE THEN LAUNCHED INTO LECTURE ON IMPORTANCE TO WORLD OF SOLVING PROBLEMS OF ENERGY -- ITS AVAILABILITY IN SUFFICIENT QUANTITY, DISCOVERY OF ECONOMIC FORMS OF ENERGY AFTER OIL, AND ITS COST, ESPECIALLY TO POOR NATIONS. ATEEQI PROPOSED CONSULTATIONS BETWEEN PRODUCERS AND CONSUMERS OF ENERGY, LOOKING INTO POSSIBILITIES FOR WORLD CORPORATIONS
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OF ENERGY ALONG LINES OF COMSAT IN COMMUNICATIONS. ATEEQI'S CLEAR MESSAGE WAS THERE IS GREAT DEAL OF BUSINESS TO BE DONE BETWEEN KUWAIT AND OTHER ARAB OIL PRODUCERS ON ONE HAND, AND US AND WEST ON OTHER. AND THE SOONER CURRENT PROBLEMS IN MIDEAST WERE SOLVED, THE SOONER THE TWO SIDES COULD GET ON WITH IT.
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